Management Discussion and Analysis

FINANCIAL MANAGEMENT AND ANALYSIS

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INTRODUCTION

The Office of Financial Management (OFM) within the Department of Commerce formulates and prescribes Department-wide financial management, accounting, and fiscal policies, procedures, and controls. OFM also provides assistance in the implementation of these measures.

OFM MISSION

To provide financial information, services, and systems of a quality unparalleled in Government to meet the needs of the Department of Commerce's program managers and administrators.

OFM VISION

- Program managers must also be knowledgeable, responsible, and accountable fiscal managers.
- Accurate financial data must be readily available to all authorized personnel.
- Financial management must be conducted through a Department-wide system that directly supports integrated work-and-resource planning and integrated financial-and-program performance measurement.
- Financial management specialists and systems should be recognized for excellence within the government.

INITIATIVES AND PRIORITIES

We are creating a financial management environment that complies with Federal laws and regulations and that will provide our executives with timely, accurate financial and performance information. As part of this process, we are pursuing the following major initiatives:

- Improve Financial Accountability
- Improve Financial Management Systems
- Develop Human Resources

Improve Financial Accountability. Under the Secretary's leadership, we are continuing to give the highest priority to our financial statements and to our accountability for all assets. Our goal is to strengthen the integrity

of our financial operations to ensure the accuracy of our financial data and to earn an unqualified opinion for all future consolidated financial statements. We are also continuing to correct certain long-standing audit and financial management issues. All Departmental bureaus are required to prepare corrective action plans for any material weaknesses or reportable conditions identified by auditors. Our objectives are to reduce the number of internal control deficiencies, to improve our efficiency, and to issue timely, unqualified financial statements.

The Department is also committed to providing guidance to its bureaus on new standards, bulletins, and other principal agency directives. We have made the *Financial Management Handbook Series* available on the Internet, providing access to regularly updated information and to other helpful sites. We strive at all times to provide accurate and timely Department-wide reporting and management information and superior service to external stakeholders and customers.

As demonstrated by the preparation of this Accountability Report, we are also seeking to improve our performance in streamlining reporting requirements, thereby providing a comprehensive picture of the Department's performance. OFM will continue to assist the Department's GPRA Task Force in its work to coordinate and guide the GPRA activities of the bureaus. The Task Force is currently revising the Department's Strategic Plan to ensure that we meet the critical goal of integrating all GPRA requirements with our existing planning, budgeting, program evaluation, and financial accountability processes.

Improve Financial Management Systems. The Commerce Administrative Management System (CAMS) project is a Department-wide effort to develop and implement a set of standardized systems that will support the common financial activities of the Department. The objectives of the CAMS project are to replace or integrate existing financial and administrative management systems with systems that use modern technologies and operational strategies and to provide for the maintenance of those systems once CAMS is deployed. CAMS includes a Core Financial System (CFS) interfaced with

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Financial Management Initiatives

- Improve Financial Accountability
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administrative systems for small purchases, bankcards, and time reporting/labor cost distribution, collectively called Core CAMS.

During FY 1998, Core CAMS was successfully deployed at the Bureau of the Census; other Census administrative functional systems that give rise to financial transactions were also successfully integrated or interfaced with the system. Core CAMS was fully implemented at Census after this two-year phased pilot deployment. Implementation efforts have also begun at NOAA and EDA; deployment at NOAA will be followed by the further deployment of Core CAMS at NIST, which

provides financial services to several other bureaus. The Department CFO has strongly encouraged the remaining bureaus to study the feasibility of outsourcing their financial systems in a manner similar to the PTO's arrangement with the Department of the Interior. ITA has already outsourced its systems to the Department of the Interior.

The CAMS initiative addresses our objectives of improving our major financial and administrative systems. Our goals include upgrading Department systems to fully comply with Federal laws and regulations and to provide our executives with the financial and performance information that will enable them to make more informed decisions. The CAMS project also includes the near-term development of a corporate financial database that will deliver audited consolidated financial statements and Federal Agencies Centralized Trial Balance System (FACTS) reporting to Treasury; a data warehouse that will facilitate end-user access to data and reports; and the migration of EDA grant and loan accounting to CAMS.

Develop Human Resources. In an effort to improve communication and increase open dialogue, all of the Department's bureaus have reorganized to establish CFO or similar positions of financial leadership. We have also formed a CFO council that meets monthly to discuss common financial management issues and problems, including human resources, budget, procurement, and information technology systems, as well as financial accountability issues. Additionally, we maintain an Internet site to provide Department-wide access to reports, procedures, policies, and other related information. Conferences of bureau finance officials are held as necessary to ensure complete understanding and agreement with Departmental finan-

cial management objectives and approaches. We also participate in meetings of the Government-wide CFO council and of the Federal Financial Managers Council to address issues that cut across agencies.

OFM works closely with bureau finance officers to assist in the proper implementation of Departmental standards and quidance. When specific issues arise, OFM conducts thorough studies and consultation with the central agencies, the Federal Accounting Standards Advisory Board (FASAB), OIG, and similar organizations to develop the best possible financial management standards.

Our Continuing Professional Education (CPE) program enhances workforce development. This program requires a minimum of 40 hours of training and development activities per year for each financial management professional.

FINANCIAL MANAGEMENT INDICATORS

OMB prescribes the use of quantitative indicators to monitor improvements in financial management. The table below shows our performance during FY 1999 against the target performance established by the OMB:

FINANCIAL PERFORMANCE MEASURE	FY 1999 Performance	FY 1999	THE THE	MANAGEMENT MANAGEMENT
Percentage of timely vendor payments	95%	95%		MANAGEMENT
Percentage of payroll by electronic transfer	97%	90%	NANCIAL	MANAGEMENT
Percentage of Treasury agency locations fully reconciled	100%	95%	NANCIAL	MANAGEMENT
Timely reports to central agencies	87%	95%	NANCIAL	MANAGEMENT
Audit opinion on FY 1999 financial statements	Unqualified	Unqualified	NANCIAL	MANAGEMENT
Material weaknesses as reported by OIG	1	0	NANCIAL	MANAGEMENT
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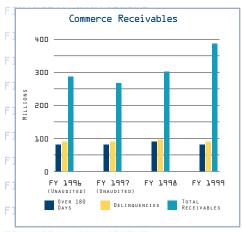
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RECEIVABLES AND DEBT COLLECTION

The principles of the Credit Reform Act of 1990 have been incorporated into the operations of the Department's credit and debt programs. Prescreening procedures, account-servicing standards, the aggressive collection of delinquent debt, inventory management, and asset disposition standards have helped to greatly diminish the amount of risk inherent in credit programs. These procedures were established to ensure that credit costs are properly identified and controlled, that borrowers' needs are met, and that costs to the taxpayer are minimized.

Total Department receivables increased from \$305 million in FY 1998 to \$386 million in FY 1999. This increase is primarily due to one new NOAA direct loan program. Because of this new program, NOAA's direct loans increased by approximately \$92 million. Total delinquencies as a percentage of total receivables for the Department decreased 9.1 percent, from 34.8 percent in FY 1998 to 25.7 percent in FY 1999.

The Debt Collection Improvement Act of 1996 (DCIA) established Treasury as the collection agency for Federal agency debts that are more than 180 days delinquent. It also established Treasury's Financial Management Service as the Federal government's debt collection center. In FY 1998, we signed a letter of agreement with Treasury for cross-servicing of debt more than 180 days old. All Departmental bureaus completed and forwarded agency profile forms to initiate cross-servicing. More than \$10 million in delinquent debt has since been referred to Treasury for cross-servicing.

PAYMENT PRACTICES

ELECTRONIC FUNDS TRANSFER

During FY 1999, we successfully continued with our strategy to convert check payments to Electronic Funds Transfer (EFT) payment, as illustrated by the table below:

				FINANCIAL MAN	AGEMENT
PAYMENT CATEGORY	FY 1998 EFT PERCENTAGE	FY 1999 EFT Percentage	FY 1998 Total Volume	FY 1999 Total Volume	SEMENT
Retirement benefits	97	96	3,500	3,924	- MENI
Salary	94	97	1,016,652	1,126,121	SEMENT
Salary (Census field)	not reported separately in 1998	80	98,800	723,352	SEMENT
Vendor*	62	79	759,224	479,892	SEMENT
Miscellaneous	45	62	169,496	334,578	GEMENT
Total	78	88	2,047,672	2,667,867	BEITENT

^{*} Includes purchase card transactions.

The Department exceeded the National Partnership for Reinvention of Government (NPR) goal of 69 percent for FY 1999, and we anticipate exceeding the NPR goal of 75 percent EFT payments in FY 2000. We made 97 percent of permanent employee salary payments by EFT and are averaging 80 percent EFT payments to temporary employees supporting Census 2000. In FY 1998, we additionally commenced use of the Citibank SmartPay purchase system, which allows invoices to be received electronically.

We continued our efforts to increase use of the Automated Clearing House (ACH) system for EFT payments. Under new Federal Acquisition Regulation (FAR) authority, vendors must provide the banking information necessary to make payment by ACH possible. In FY 2000, we will seek where operationally feasible to reduce or eliminate Imprest Funds through the use of convenience checks and debit cards. Other plans for FY 2000 include the pilot use of debit cards and other advanced SmartPay payment mechanisms.

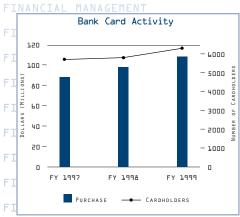
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BANK CARD

We are committed to the use of charge cards as a means of streamlining Departmental procurements. We selected Citibank in FY 1998 as our charge card provider. The use of charge cards continues to grow as more cards are issued and as the card becomes the preferred method of procurement for small purchases. Departmental usage of the card grew from 5,821 cardholders in FY 1997 to 6,360 at the end of FY 1999. The value of purchases made using charge cards increased during the same period from \$88.2 million to \$108.6 million. As the number of purchases increases, we are paying close attention to the internal controls that assure that all such purchases are legal and proper.

PROMPT PAYMENT

We made approximately 95 percent of all payments on a timely basis in FY 1999, to record an improvement over the 93 percent reported in FY 1998. The Department nonetheless incurred a total of \$567,320 in interest penalty costs on late payments. We will continue to monitor our finance offices' payment performance.

ANALYSIS OF FY 1999 FINANCIAL CONDITION AND RESULTS

FY 1999 was a landmark year for the Department, as we received for the first time an unqualified opinion on all five of our consolidated financial statements. All Departmental bureaus similarly received unqualified opinions on their financial statements. This achievement resulted from our commitment to strong management control and accountability of our financial resources, a commitment that we are extending into the future as we seek to further improve management of our financial resources.

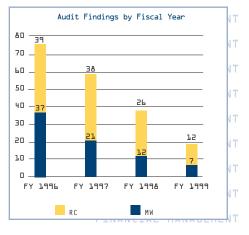
"FY 1999 was a landmark year for the Department, as we received for the first time an unqualified opinion on all five of our consolidated financial statements. All Departmental bureaus similarly received unqualified opinions on their financial statements."

CLEAN FINANCIAL AUDITS

The audit opinion on our Consolidated Financial Statement is directly attributable to the opinion received on our bureau financial statements. As stated above, the Department received its first unqualified opinion on all principal statements in FY 1999. Prior to this, we had received a disclaimer in FY 1996 and FY 1997 and an unqualified opinion on the balance sheet in FY 1998 (disclaimer on other statements.) The following table and chart illustrate our progression toward full attainment of unqualified audit opinions and our progress in correcting the material weaknesses and reportable conditions identified in bureau audits.

FINANCIAL MANAGEMENT





FINANCIAL MANAGEMENT

SUMMARY OF AUDIT OPINIONS					NAGE
Type of Opinion	FY 1996** REPORTING ENTITIES	FY 1997 REPORTING ENTITIES	FY 1998 REPORTING ENTITIES	FY 1999 REPORTING ENTITIES	NAGE NAGE
Unqualified	7	8	11	14	NAGE
Unqualified/BS only*	0	3	2	0	NAGE
Qualified/BS only*	3	2	0	0	
Disclaimer	4	2	1	0	NAGE
Not Audited	0	0	1	1	NAGE

^{*}Disclaimer on other statements.

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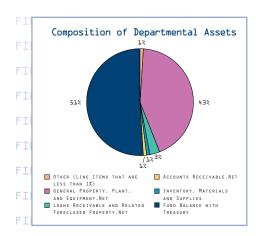
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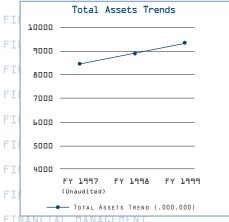
^{**}FY 1996 had 14 reporting entities only. The Franchise Fund was added in FY 1997.

FINANCIAL CONDITIONS AND RESULTS (DOLLARS IN THOUSANDS)



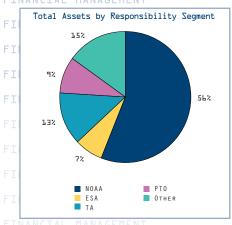
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FINANCIAL MANAGEMENT

COMPOSITION OF DEPARTMENTAL ASSETS

Fund Balance with Treasury of \$4,700,185 is the aggregate amount of funds available to make authorized expenditures and pay liabilities. PP&E of \$4,082,449 includes \$1,589,285 of satellites and weather measuring and monitoring systems and \$1,759,086 of Construction-In-Progress, primarily of satellites and weather systems. Loans Receivable and Related Foreclosed Property, Net of \$290,744 results from the Department's five direct loan programs and two loan quarantee programs.

TRENDS IN ASSETS

Total Assets increased \$449,323 or 5 percent, from \$8,949,262 at
September 30, 1998 to \$9,398,585 at September 30, 1999. Fund Balance
with Treasury increased \$144,177 or 3.2 percent to \$4,700,185, primarily
due to increased available funds for the Decennial Census. Loans
Receivable and Related Foreclosed Property, Net increased 52.6 percent,
from \$190,563 to \$290,744. Most of this increase was due to the Fisheries
Finance Fund loan program disbursing \$75,000 related to the protection
of the pollock fish species in the Bering Sea. General Property, Plant, and
Equipment, Net (PP&E) rose \$213,899 or 5.5 percent, from \$3,868,550 to
\$4,082,449, largely due to increased Construction-In-Progress for satellites
and weather systems.

ASSETS BY RESPONSIBILITY SEGMENT

NOAA has made significant investments in weather systems and satellites - its PP&E, which includes Construction-In-Progress of \$1,632,791, amounts to \$3,579,698. NOAA's other significant asset is Fund Balance with Treasury of \$1,261,699. TA's significant assets are NIST's Fund Balance with Treasury of \$837,436 and NIST's PP&E of \$311,254. NIST's PP&E reflects its investment in laboratory buildings, including Construction-In-Progress of \$93,576.

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FINANCIAL MANAGEMENT

COMPOSITION OF DEPARTMENTAL LIABILITIES

Accounts Payable of \$731,720 consists of amounts owed for goods and services received, progress in contract performance by others, grants awarded, and other expenses due. Unearned Revenue of \$643,943 represents monies received from customers for which goods and services have not yet been provided or rendered. Retirement Benefits and Actuarial FECA Liabilities of \$437,163 is comprised of a) NOAA Corps Retirement System - \$290,700; b) NOAA Corps Post-Retirement Health Benefits - \$37,400; and c) Actuarial FECA Liability - \$109,063. Debt to Treasury of \$151,894 results from monies borrowed for the Fisheries Finance Fund direct loan program and Fishing Vessel Obligation Guarantee Program.

Composition of Departmental Liabilities 92 NT 172 172 184 ACCOUNTS PAYABLE ACCRUED PAYROLL AND ANNUAL LEAVE UNEARNED REVENUE OTHER NT

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TRENDS IN LIABILITIES

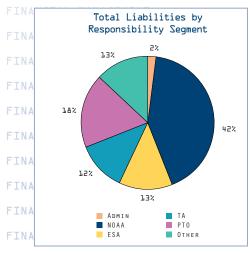
Total Liabilities increased \$239,789 or 10.6 percent, from \$2,258,822 at September 30, 1998 to \$2,498,611 at September 30, 1999. Accounts Payable increased from \$655,972 to \$731,720 or 11.6 percent, primarily due to increased costs for the Decennial Census. Debt to Treasury increased from \$64,871 to \$151,894, mainly due to approximately \$75,000 borrowed in FY 1999 by the Fisheries Finance Fund related to the protection of the pollock fish species in the Bering Sea. Resources Payable to Treasury increased from \$48,993 to \$92,309, which reflects a FY 1999 Prior Period Adjustment of \$48,929 to establish a liability as of September 30, 1998 for the Drought Loan Portfolio, a Non-Entity Asset.



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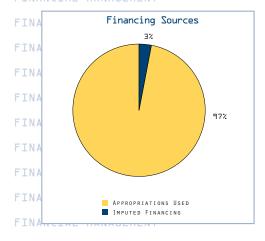
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LIABILITIES BY RESPONSIBILITY SEGMENT

NOAA's significant liabilities include Accounts Payable - \$230,377; Debt to Treasury - \$151,894, which results from its loan programs; and Retirement Benefits and Actuarial FECA Liability - \$375,131, which includes retirement system and post-retirement health benefits for the NOAA Corps. PTO has \$329,564 of Unearned Revenue related to its patent and trademark processing. ESA/BEA's liabilities include \$77,708 of Census' Unearned Revenue related to reimbursable agreements with other Federal agencies, and Accounts Payable and Accrued Payroll and Annual Leave for Census totaling \$186,197, which reflects liabilities related to the Decennial Census.

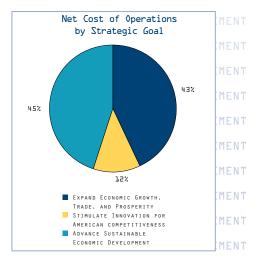
TRENDS IN FINANCING SOURCES

Total Financing Sources, shown on the Consolidating Statement of Changes in Net Position, increased \$934,810 or 21.3 percent, from \$4,400,075 at September 30, 1998 to \$5,334,885 at September 30, 1999. This reflects the significant increase in Appropriations Used of \$967,180 or 22.9 percent, from \$4,233,709 to \$5,200,889, primarily due to the increased expenditures for the Decennial Census and for NOAA.

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NET COST OF OPERATIONS BY STRATEGIC GOAL

In FY 1999, Net Cost of Operations totaled \$5.1 billion. The Department spent 45 percent of the total to achieve the Department's Strategic Goal to Advance Sustainable Economic Development which includes NOAA's Advance Short Term Warning Forecast Service program, 43 percent to Expand Economic Growth, Trade, and Prosperity which includes the Census 2000 program, and 12 percent to Stimulate Innovation for American Competitiveness.



FINANCIAL MANAGEMENT FINANCIAL MANAGEMENT

FINANCIAL LIMITATIONS OF THE FINANCIAL STATEMENTS

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FINANCIAL MANAGEMENT

These financial statements have been prepared to report the financial position and results of operations of the Department of Commerce, pursuant to the requirements of 31 United States Code 3515(b). While the statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records.

These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides the resources to do so.